

<p align="center">2007 - 2008 ANNUAL REPORT</p>

GENERAL FUND REVENUE PERFORMANCE

The following table details actual 2007-2008 General Fund revenue collections as compared with the modified budget estimates:

TABLE A
2007-2008 GENERAL FUND REVENUE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
(\$000s)

Category	Modified Budget	Budgetary Basis Actual	Variance	% Variance
Property Tax	\$ 203,454	\$ 203,718	\$ 264	0.1%
Sales Tax	152,636	154,002	1,366	0.9%
Transient Occupancy Tax	8,988	9,560	572	6.4%
Franchise Fees	40,832	41,064	232	0.6%
Utility Tax	82,141	82,254	113	0.1%
Licenses and Permits	75,499	74,059	(1,440)	-1.9%
Fines, Forfeitures, and Penalties	15,008	15,601	593	4.0%
Use of Money and Property	16,629	17,891	1,262	7.6%
Revenue from Local Agencies	48,879	49,127	248	0.5%
Revenue from the State of California	12,486	12,314	(172)	-1.4%
Revenue from Federal Government	14,505	7,409	(7,096)	-48.9%
Departmental Charges	29,924	30,842	918	3.1%
Other Revenue	23,283	23,416	133	0.6%
Subtotal	724,264	721,257	(3,007)	-0.4%
Overhead Reimbursements	36,636	37,680	1,044	2.8%
Transfers	50,323	51,105	782	1.6%
Reimbursements for Services	17,825	17,699	(126)	-0.7%
Subtotal	104,784	106,484	1,700	1.6%
TOTALS*	\$ 829,048	\$ 827,741	\$ (1,307) **	-0.2%

* Excludes Beginning Fund Balance

** After adjusting for \$4.2 million of grant and reimbursement related revenues not received in 2007-2008 but rebudgeted to 2008-2009, the revenue variance actually resulted in a surplus of \$2.9 million. For these grant revenues, corresponding General Fund expenditure savings were also realized in 2007-2008, with a net zero impact on the General Fund Ending Fund Balance.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

The General Fund revenue performance for 2007-2008 is discussed in detail in the following section. The 2007-2008 actual revenue receipts for each of the major revenue categories are compared to the modified budgets and any significant variances are described. In addition, comparisons with the 2006-2007 collection levels are typically included to indicate collection trends and to provide historical perspective.

As shown in Table A, total revenue received in the General Fund in 2007-2008 was \$827.7 million. This represents an increase of \$21.8 million (up 2.7%) from the actual 2006-2007 collections (\$806.0 million) and was within 0.2% of the 2007-2008 Modified Budget level. After adjusting for grant and reimbursement related revenues not received in 2007-2008, but rebudgeted to 2008-2009, however, revenues actually ended the year \$2.9 million (0.3%) above the budgeted estimate. In 2007-2008, growth was experienced in many of the revenue categories, including Property Tax, Sales Tax, Transient Occupancy Tax, Utility Tax, and Use of Money and Property. Growth in those categories was partially offset by declines in the Other Revenue, Revenue from the Federal Government, and Revenue from the State categories.

The variances from the modified budget levels, as well as changes from prior year levels, are better understood through a discussion of the status of the individual General Fund revenue categories, as provided in the following section.

Property Tax

The Property Tax revenue category includes Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax, and Homeowners Property Tax Relief. Property Tax receipts for the 2007-2008 fiscal year totaled \$203.7 million. This collection level was slightly above (0.1%) the budgeted estimate of \$203.5 million, and represented growth of 7.4% from the prior year actuals of \$189.7 million. Following is a discussion of the major Property Tax components.

- **Secured Property Tax** – receipts of \$183.5 million were 8.0% (\$13.6 million) above the 2006-2007 level of \$169.9 million but less than 1% (\$328,000) below the 2007-2008 Modified Budget estimate of \$183.9 million. Collections in 2007-2008 were based on the property tax roll as of January 1, 2007. While the housing market had started to slow, it had still experienced fairly strong growth through that period as reflected in the Secured Property Tax results. The 8% growth rate in 2007-2008, while slightly below the 8.9% growth experienced in 2006-2007, is well above the 4.5% growth expected in 2008-2009. The upcoming fiscal year will be far more impacted by the deteriorating housing market.
- **SB 813 Property Tax** – the SB 813 Property Tax component represents the retroactive taxes on reassessed valuation from the period of resale to the time that the Assessor formally revalues the property. In 2007-2008, receipts of \$7.9 million exceeded the modified budget of \$7.4 million by 7.4% (\$545,000), but were down 1.1% from the \$8.0 million collected in 2006-2007. This collection pattern was unusual given the large declines in the number of

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Property Tax (Cont'd.)

SB 813 Property Tax (Cont'd.) – real estate transactions that occurred in 2007-2008. Collections in this category are, however, dependent on real estate transactions county-wide, of which San José receives a share based on its proportion of Property Tax revenue within the County. While only a small drop in this category was realized in 2007-2008, it is anticipated that collections will fall significantly at some point in this area based on the significant slowdown in the housing market and the drop in home prices. The 2008-2009 Adopted Budget allows for a decline of approximately 50% in this category.

- **Unsecured Property Tax** – this tax is assessed on major business equipment items and is subject to annual depreciation adjustments. Current and Prior Unsecured Property Tax receipts of \$11.1 million were at the budgeted estimate. This collection level was 4.7% above the 2006-2007 level of \$10.6 million.
- **Homeowner's Exemption Subvention** – this represents the recovery of tax loss resulting from the per-household exemption granted by current State law. Receipts in this tax category of \$1.1 million were consistent with both the budgeted estimate and the 2006-2007 actual collection level.

Sales Tax

The Sales Tax category includes General Sales Tax and Proposition 172 Sales Tax. Overall Sales Tax collections for 2007-2008 of \$154.0 million were 2.7% above (up \$4.0 million) the 2006-2007 year-end level of \$150.0 million and 0.9% above the 2007-2008 budget estimate of \$152.6 million. Following is a discussion of the two Sales Tax components:

- **General Sales Tax** – In the General Sales Tax category, collections of \$149.5 million slightly exceeded the budget estimate of \$147.9 million and tracked 2.9% above the 2006-2007 collection level of \$145.3 million. This growth rate is somewhat understated by technical triple flip and accounting adjustments. Factoring out those adjustments, Sales Tax cash receipts increased by 5.1% in 2007-2008. This annual growth was the result of significant one-time adjustments and growth in the County pool receipts. Actual economic performance was flat or declined.

On a cash basis, quarterly performance ranged from growth of 11.7% to a decline of 3.4%. The economic performance for the first three quarters for which the City currently has data was not promising with growth of less than 1% in one of the quarters and declines in two of the three quarters. For the fourth quarter, it was assumed that collections would drop by 2.5% from the 2006-2007 collection level given the current economic conditions. Because a

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Sales Tax (Cont'd.)

General Sales Tax (Cont'd.) – three-month lag exists between the period of sales activity and when the City receives its quarterly Sales Tax allocation, the fourth quarter (April through June) was accrued based on this projection. Since the accrual was processed, preliminary Sales Tax data for the fourth quarter has become available and shows a slightly larger decline of 3.4%. This decline in Sales Tax receipts is reflective of the overall state of the economy. In 2008-2009, the City's Sales Tax performance will be closely monitored to determine if adjustments are necessary to the budgeted estimate. The 2008-2009 Adopted Budget allows for a slight decline of approximately 1% from the 2007-2008 actual collection level.

It is important to note that the technical adjustments associated with Proposition 57, the Economic Recovery Bond Act, that was approved by the voters in March 2005 remain in effect. This measure allowed the State to purchase bonds to reduce the State budget deficit. One aspect of the bond measure, referred to as the "triple flip", is a very complex set of transactions which involve suspending one-quarter of the Bradley-Burns Sales and Use Tax and replacing the lost revenues with funds set aside from countywide property tax revenues. This change will remain in effect until the State's bond obligations have been satisfied. As a result, the City has been receiving reduced (down 25%) Sales Tax receipts each month. Under the provisions of the State Budget action, the reduced amounts are offset by payments, made twice a year, from property tax receipts (usually in January and May). The City will, however, continue to record the replacement property tax revenues as Sales Tax receipts as the growth formula for these receipts is tied to Sales Tax and this action is considered a temporary situation. In 2007-2008, the "triple flip" payment of \$36.8 million was slightly above the prior year payment of \$36.6 million based on estimated performance by the State. Based on actual performance, an upward clean-up adjustment will be processed in 2008-2009.

- **Proposition 172 Half-Cent Sales Tax** – Receipts of \$4.5 million were down 2.6% when compared to the 2006-2007 collection level and were also 4.9% below the 2007-2008 budgeted estimate of \$4.7 million. This decline reflects the overall Sales Tax performance throughout the State and the relative share that is attributed to San José.

Transient Occupancy Tax

Collections for the General Fund's portion (4.0%) of the City's Transient Occupancy Tax (TOT) of \$9.6 million showed stronger than expected growth with an increase of 11.2% over the prior year level of \$8.6 million. This collection level was also \$0.6 million (6.4%) above the budget estimate of \$9.0 million. This marks the fourth year of strong growth in this category that had experienced significant declines during the downturn in the early years of this decade.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Transient Occupancy Tax (Cont'd.)

The growth in 2007-2008 was driven by increases in room rates and occupancy rates. The average room rate for the City's 14 largest hotels grew from \$133 to \$142 over the year. The average occupancy rate for the same hotels increased from 59.9% to 62%. Given the deteriorating state of the economy, this category will be closely monitored in 2008-2009.

Franchise Fees

Franchise fee collections of \$41.1 million were slightly above the 2007-2008 modified budget level of \$40.8 million and the 2006-2007 collection level of \$40.4 million. The slightly higher collection level was primarily the result of an increase in the Cable Television Franchise Fee, partially offset by a decline in the Commercial Solid Waste Franchise Fee. Following is a discussion of the major Franchise Fee components:

- ***Electric and Gas Franchise Fees*** – for 2007-2008, collections were based on activity that occurred during calendar year 2007. Collections in both categories ended the year very close to both the budgeted estimate and the prior year actuals. Electric Franchise Fees of \$15.0 million were slightly below the 2007-2008 modified budget level of \$15.1 million but slightly above the 2006-2007 collection level of \$14.9 million. Gas Franchise Fees of \$5.5 million were at both the prior year and budgeted estimate.
- ***Commercial Solid Waste Franchise Fee (CSW)*** – collections of \$12.0 million were slightly above the 2007-2008 modified budget level of \$11.9 million but were below the prior year collection level of \$12.5 million. The 3.5% decrease in collections from the prior year was primarily the result of a softening in the economy as well as increased recycling.
- ***Cable Television Franchise Fees*** – collections of \$7.1 million slightly exceeded the budgeted estimate of \$7.0 million but far exceeded the 2006-2007 collection level of \$6.0 million (up 17.6%) based on current activity levels.
- ***City-Generated Tow, Water, and Nitrogen Gas Pipeline Franchise Fees*** – These categories were relatively consistent with both the budgeted estimates and the prior year actuals. City-Generated Tow Franchise Fee receipts of \$1.2 million were comparable with both the prior year collection level and the budgeted estimate. Water Franchise Fee collections of \$232,000 reflected were consistent with the 2006-2007 collection level but were slightly above the budgeted estimate of \$224,000. Nitrogen Gas Pipeline Franchise Fee receipts of \$54,000 were slightly below the budgeted estimate of \$58,000 but slightly above the 2006-2007 collection level of \$52,000.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Utility Tax

The City assesses utility user taxes on four utilities: Electricity, Gas, Water, and Telephone. Overall, Utility Tax receipts of \$82.3 million were slightly above 2007-2008 modified budget level of \$82.1 million and 3.9% above (\$3.1 million) the 2006-2007 actual level.

- ***Electricity and Gas Utility Tax*** – Electricity Utility Tax receipts of \$37.2 million were at the modified budget estimate and 1.3% above the 2006-2007 level. Gas Utility Tax collections of \$11.2 million were 2% above the 2007-2008 modified budget estimate of \$11.0 million and 14.6% above the 2006-2007 collection level of \$9.8 million. The growth from the prior year was primarily the result of increases in the price of gas, which fluctuates on a monthly basis.
- ***Water Utility Tax*** – receipts of \$7.7 million were 4.7% below the modified budget level of \$8.1 million and equivalent to the prior year collection level. This performance reflects rate increases that were offset by consumption changes.
- ***Telephone Utility Tax*** – collections of \$26.1 million were slightly (1.1%) above the modified budget level of \$25.8 million and 4.9% above (\$1.2 million) the prior year collection level of \$24.9 million. The growth was primarily driven by a 5.8% increase in the cellular telephone area, with only a 2.9% growth in the landlines area.

Licenses and Permits

Revenues in this category include the Cardroom Tax, Business Tax, Disposal Facility Tax, Fire Permits, Building Permits, and various other health and public safety permits and licenses. Overall, Licenses and Permits collections of \$74.1 million were 1.9% below the modified budget level of \$75.5 million and 0.7% below (\$502,000) the 2006-2007 collection level of \$74.6 million. The slight drop from last year was the net result of lower collections in the Disposal Facility Tax and Building Permit categories, partially offset by higher collections in the Business Tax and Fire Permits categories. Following is a discussion of the major Licenses and Permits components:

- ***Cardroom Tax*** – receipts of \$12.8 million ended the year well above (\$1.0 million or 8.7%) the modified budget estimate of \$11.8 million and 2.2% above the prior year actual level of \$12.5 million.
- ***Business Tax*** – collections of \$12.6 million ended the year at the modified budget estimate and 4.4% above the 2006-2007 collection level of \$12.1 million. The growth from the prior year reflects the continued efforts by the Finance Department to maximize General Fund revenues by ensuring Business Tax compliance.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Licenses and Permits (Cont'd.)

- **Disposal Facility Tax** – collections of \$13.9 million ended the year well below the budget estimate of \$15.0 million and the 2006-2007 collection level of \$14.7 million. Revenue from the Disposal Facility Tax is impacted by the economy, waste exports, and diversion. Decreases in retail sales and construction reduce waste generation and thus the amount of material disposed in landfills. The City is currently working with consultants to determine whether there is any significant increase in real diversion at the landfills or at intermediate facilities or other issues causing the decline. The consultants may be able to improve the information that the City has on how much material is being exported and how much is imported.
- **Fire Permits** – Fire Fee receipts of \$8.1 million at year-end were 2.4% below (\$198,000) the estimate of \$8.3 million but 18.0% above the prior year level of \$6.8 million. The \$6.8 million receipts received in 2006-2007, however, was short by an amount (\$703,000) that should have been deferred to 2006-2007. With this adjustment, the 2007-2008 receipts were 7.0% above the adjusted 2006-2007 receipts of \$7.5 million. These estimates were built assuming a continuation of activity levels from the previous year. Non-Development revenues from Annual Renewable Permits, Non-Renewable Permits, and Fire Code Plan Checks were slightly below estimated levels. In 2007-2008 Finance wrote off and closed a number of uncollectible annual renewable permit accounts, and consistent with City policy, Fire allocated an additional \$43,000 from its annual renewable revenues to the Fire Reserve for Doubtful Accounts. Fire Department has consistently worked closely with Finance to coordinate changes in accounts to ensure that the Fire database reflects timely Finance changes in customer accounts. This will allow Fire Department staff to provide updated revenue estimates for annual renewable permits.

Development Plan Check activities ended the year at \$2.7 million, approximately \$100,000 below anticipated levels of \$2.8 million but higher than 2006-2007 levels of \$2.2 million. Although revenues were lower than budgeted, revenues for other development activities such as alarm and sprinkler systems and inspections exceeded budgeted estimates to offset for the slightly lower performance in plan check. Development non-renewable and inspection activities continued at the previous year's levels due to continued activity levels in high rise residential projects and large commercial projects experienced in first half of 2007-2008. As part of this document's proposed actions, a \$638,000 increase to the Fire Fee Reserve is recommended to reflect the year-end reconciliation of actual costs and revenues collected for this program.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Licenses and Permits (Cont'd.)

- **Building Permits** – receipts of \$19.7 million ended the year 5.9% below (\$1.2 million) the modified budget estimate of \$21.0 million and 9.7% below the prior year level of \$21.9 million. As identified in Monthly Financial Reports, permit revenue throughout 2007-2008 were consistently below anticipated levels. In recognition of reduced permit revenues, budget estimates were decreased three times during 2007-2008. In October, January and again in June, revenues were reduced by a total of \$4.2 million. Actual collections, however, fell below these revised estimates.

The total valuation of projects submitted was \$846 million in 2007-2008 which was below the budgeted estimate of \$875 million and 6% below the \$901 million valuation of projects that were received in 2006-2007. Commercial activity achieved forecasted levels of approximately \$350 million, was 60% over last year's level, and was at a six-year high for this category. The industrial sector surpassed anticipated levels of \$225 million primarily due to a large number of alteration projects received in March. Unfortunately, residential activity was well below budgeted levels with permit valuation falling to a 25-year low. A total of 1,545 residential units received permits in 2007-2008 compared to an estimate of 1,750 units with a valuation of \$158.2 million in 2007-2008 compared to \$366.5 million in 2006-2007. The number of projects requiring Plan Check was 6,236 in 2007-2008, a decrease of 3% from the prior year. Of the projects requiring Plan Check, 3,865 were Plan Checks, and 2,371 were subtrades Plan Checks. The total number of Building Inspections conducted in 2007-2008 was 194,619, dropping from 200,198 the previous year.

While revenues ended the year significantly below the budgeted level, expenditures also ended the year well below the budget with additional savings of \$1.6 million. The combination of expenditure savings and interest earnings attributed to the Building Fee Program were more than sufficient to offset the \$1.2 million shortfall in revenue. In the development fee programs, any excess revenues and interest earnings over costs are recommended to be set aside in the Fee Reserve. Based on 2007-2008 activity, the Building Fee Reserve would be increased by \$609,000. It is recommended elsewhere in this document that this increase to the reserve be used to reduce the 2008-2009 revenue estimate as revenue performance continues its downward trend. Should revenues perform at the 2007-2008 levels in 2008-2009, even with the recommended adjustment there could be a shortfall in this category by more than \$2.0 million. Additional measures will be necessary in 2008-2009 if revenue performance does not improve. The Budget Office will work with the Planning, Building and Code Enforcement Department to develop a strategy that will be brought forward during the Mid-Year Budget Review to provide stability within this program. The Building Fee Reserve currently at \$3.9 million is also available to offset any potential revenue shortfalls.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Fines, Forfeitures and Penalties

The primary sources of revenue in this category are proceeds from Parking, Municipal Code and Vehicle Codes Fines, and Cardroom and Business Tax Penalties. Collections of \$15.6 million in this category were 4.0% above the modified budget estimate of \$15.0 million and 11.0% above prior year collections of \$14.1 million. Collections exceeded the modified budget and prior year levels in the parking fines, and municipal court fines categories. Parking fines, the largest component of this revenue category, ended the year at \$8.6 million, exceeding both the budgeted estimate of \$8.2 million and the prior year collection level of \$8.0 million. The higher collection level for parking fines was primarily the result of the addition of Parking and Traffic Control Officers for parking enforcement around the schools, in street sweeping areas, and in neighborhoods with residential permit parking. Also, an additional 20 miles of street sweeping parking restrictions were added in 2007-2008 which contributed to the increase in fine revenue. In 2007-2008, the City also received the budgeted payment of \$539,000 from the Garden City Cardroom for an outstanding fine. This was the second fiscal year in which installments for this fine were made, with the final payment expected in 2009-2010.

Revenue from Use of Money and Property

The largest source of revenue in the Use of Money and Property category is interest income earned in the General Fund as well as in several capital and special funds. Collections of \$17.9 million ended the year 7.6% above the modified budget level of \$16.6 million and 14.4% above the prior year collection level of \$15.6 million. Actual collections exceeded the budgeted estimate primarily due to higher than projected collections for Property Tax interest, Financing Authority interest, subrogation recovery, and the repayment of a Senior Staff home loan. These factors were also responsible for a large portion of the growth from the prior year.

Revenue from Local Agencies

This revenue category contains revenue received from a variety of other local government agencies. The seven largest sources of revenue are the reimbursement for City staff and overhead costs from the Redevelopment Agency; the reimbursement from the Redevelopment Agency for payment of the Convention Center debt service and eligible capital expenditures (which enables the City to fund the San José BEST Program); Enterprise Fund In-Lieu Charges from the Water Pollution Control Plant and the Municipal Water System; payments from the Central Fire District for fire services provided to County residents by the San José Fire Department; and payment for the County Paramedic Program.

Revenue collections of \$49.1 million in the Local Agencies category ended the year very close to the budgeted estimate of \$48.9 million, with a variance of less than 1%. This collection level is 8.4% above the \$45.3 million collected in 2006-2007. Receipts fell slightly below the budgeted estimate due primarily to lower reimbursement for services provided to the Redevelopment

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Revenue from Local Agencies (Cont'd.)

Agency, which were accompanied by expenditure savings. The reimbursements from the Redevelopment Agency were, however, \$1.8 million above the 2006-2007 level. In 2007-2008, the Central Fire District payment significantly exceeded the budgeted estimate. This higher Central Fire District payment also accounted for approximately half of the increase in collections over the 2006-2007 level.

Revenue from the State of California

Revenue from the State of California of \$12.3 million ended the year 1.4% below the modified budget estimate of \$12.5 million and 5.5% below the prior year actual level of \$13.0 million. The slight variance from the modified budget estimate was due to lower than anticipated Motor Vehicle In-Lieu payments as well as fluctuations in grants calculated on a reimbursement basis. The variance from the prior year was the result of lower grant reimbursements and Motor Vehicle In-Lieu payments partially offset by higher Airplane In-Lieu collections. Motor Vehicle In-Lieu payments totaled \$4.1 million in 2007-2008, which was slightly below the modified budget of \$4.3 million but well below the prior year collection level of \$5.9 million. The significant decline in this category reflects the drop in new car sales. Based on the lower collection trend experienced during the year, the budgeted Motor Vehicle In-Lieu revenue estimate was reduced by \$2.1 million as part of the 2007-2008 year-end clean-up actions. Airplane In-Lieu collections ended the year at the modified budget estimate of \$5.2 million, which was well above the 2006-2007 collection level of \$2.1 million. This collection level was far above historical levels and resulted from a significant effort by the County of Santa Clara to audit these payments and make necessary adjustments. To reflect the higher collection level, the budgeted revenue estimate was adjusted upwards by \$3.7 million during 2007-2008.

Included in this report are recommendations to rebudget the revenue and corresponding expenditure budget for various grants to 2008-2009 and to adjust previous rebudgets based on actual year-end performance, as described in section III.

Revenue from the Federal Government

The revenue in this category is generated by various Federal grant and reimbursements. In 2007-2008, Revenue from the Federal Government of \$7.4 million was approximately half of the modified budget estimate of \$14.5 million and below the 2006-2007 collection level of \$13.9 million. The variance from the budgeted estimate was primarily related to lower collections for the COPS Interoperable Communications grant and the Super Urban Area Security Initiative grants (UASI). A portion of these grants were rebudgeted to 2008-2009 as part of 2008-2009 Adopted Budget. Additional adjustments are recommended in this report to adjust revenue and corresponding expenditure budgets for various grants based on actual performance, as described in Section III.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Departmental Charges

This category includes the fees and charges levied to recover costs of services provided by various City departments. Collections of \$30.8 million for Departmental Charges were 3.1% above the modified budget estimate of \$29.9 million and 3.5% above the 2006-2007 collection level of \$29.8 million.

A brief description of the performance in each of the departmental fee categories is provided below.

- ***Library Departmental Fees*** – Collections of \$1.35 million were consistent with the 2006-2007 collection levels and 3.0% above the modified budget estimate of \$1.31 million. Collections exceeded the budgeted estimate due primarily to higher reimbursements for the Martin Luther King Jr. Main Library.
- ***Parks, Recreation, and Neighborhood Services Departmental Fees*** – Collections of \$8.9 million ended the year 7.7% above the modified budget estimate of \$8.3 million and 5.6% higher than the \$8.4 million collected in 2006-2007. Approximately half of the \$632,000 positive variance from the prior year was the result of higher than anticipated revenue from Happy Hollow. The majority of the remaining variance was generated from higher than anticipated Fee Activity Charges and Animal Services Fees.
- ***Planning Departmental Fees*** – Collections of \$6.6 million ended the year slightly (1.9%) above the budget estimate of \$6.5 million and significantly (28.7%) above the prior year level of \$5.1 million. The 2007-2008 revenue estimate was built assuming a continuation of activity levels from the previous year with an 8% fee increase to maintain cost recovery levels. In recognition of higher activity levels, planning revenue estimates were increased in June 2008 by \$200,000 to reflect the anticipated year-end performance. The higher level of revenue collections was primarily due to North San José project applications.

Specific fee categories that performed at or better than expected were General Plan Update, Miscellaneous Permits, Residential: Tentative Maps, Planned Development Permits, Development Permit Adjustments, and Conditional Use Permits; and Non-Residential: Conventional Prezonings/Rezoning, Site Development Permits, Planned Development Permits, Conditional Use Permits, and Development Permit Adjustments.

Actual expenditures for the program ended the year with a savings of \$525,000. This savings when combined with the greater than estimated revenue receipts (\$125,000) and interest earnings attributed to the Planning Fee Program (\$58,000), totals \$709,000 which is recommended to be added to the Development Fee Program Earmarked Reserve as part of this document.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Departmental Charges (Cont'd.)

Planning Departmental Fees (Cont'd.) – In anticipation of a potential downturn in planning activity during 2008-2009, the Planning Fee program will use reserve funds conservatively and review all vacancies as they occur to minimize impacts to service levels.

- *Police Departmental Fees* – Collections of \$1.68 million were very close to the budgeted estimate with actual revenue tracking only 1.4% below (\$23,000) the modified budget of \$1.7 million. This collection level was also consistent with the 2006-2007 receipts.
- *Public Works Departmental Fees* – Collections of \$7.2 million ended the year at the modified budget estimate and 10.7% below the \$8.1 million collected in 2006-2007. Revenues in the residential and non-residential engineering, utility excavation, non-residential materials testing, and planned development permits categories performed at higher than estimated levels. However, this performance was offset by lower than anticipated collections in the record retention, erosion and sediment control, grading permits, geologic fees, private streets engineering, electrical design, residential materials testing, conventional rezonings/rezonings, and site development permit categories.

While the overall Public Works Departmental Fees were at the budgeted estimate, the development-related portion of the Public Works Departmental revenues were below anticipated levels by \$231,000. This lower collection level is more than offset by expenditure savings of \$508,000 and interest earnings of \$14,000. When actual expenditures are compared to revenues, the Development Fee Program ended the year with a surplus of \$290,000, which is recommended to be added to the Public Works Development Fee Program Earmarked Reserve as part of this document. In addition, an increase to the Program's Reserve in the amount of \$86,000 is recommended to account for the lower City Hall Debt Service costs attributed to this fee program based on an updated distribution of costs.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Departmental Charges (Cont'd.)

- **Transportation Departmental Fees** – Collections of \$1.4 million ended the year 30.7% above (\$330,000) the modified budget estimate of \$1.1 million and 12.9% above the \$1.2 million collected in 2006-2007. The strong performance in this category was primarily driven by higher than anticipated receipts for Non-Residential Signal Review (up \$211,000), Miscellaneous Traffic Repairs (up \$163,000), and Residential Signal Review (up \$109,000). The Tree Planting Charges category, however, ended the year \$165,000 below the budgeted estimate of \$198,000 with collections of only \$32,000. To ensure there is sufficient funding to deliver the Traffic Signals review work in 2008-2009, it is recommended in this document that \$64,000 of the additional revenue collected in 2007-2008 be allocated to these services in 2008-2009.
- **Miscellaneous Departmental Fees and Charges** – Collections of \$3.7 million ended the year 4.5% below the modified budget estimate of \$3.9 million and 4.8% below the prior year actual level of \$3.91 million. The negative variance from the budgeted estimate was the result of lower Solid Waste Enforcement Fee collections. This category ended the year at \$2.9 million, which was \$401,000 below the budgeted estimate of \$3.3 million. This negative variance was partially offset by higher than estimated collections for City Hall rentals (exceeded by \$101,000) and temporary board up charges (exceeded by \$71,000).

Other Revenue

Other Revenue receipts of \$23.4 million were within 1% of the budgeted estimate of \$23.3 million but were below the 2006-2007 collection level of \$27.1 million. In 2006-2007, one-time revenue was received for the Comcast Public, Educational, and Governmental (PEG) Access Program (\$2.0 million). In addition, the SB 90 State mandate reimbursements and miscellaneous revenue categories were higher last fiscal year.

Included in this report is a recommendation to adjust the revenue and corresponding expenditure budget for various grants to account for actual performance in 2007-2008, as described in section III.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Transfers and Reimbursements

This category includes overhead reimbursements, transfers to the General Fund, and reimbursements for services. Overall collections ended the year at \$106.5 million, which was \$1.7 million (1.6%) above the budgeted estimate of \$104.8 million. The positive variance was due to higher overhead reimbursements and transfers.

- **Overhead Reimbursements** – Payments from other funds for overhead costs of \$37.7 million ended the year 2.8% above the modified budget estimate of \$36.6 million. This variance represents the net result of a series of over- and under-budgeted performances from over 45 special and capital funds that reimburse the General Fund. These differences occurred where fund activities were over or under the level assumed in the modified budget estimates. The positive variance was driven by higher than anticipated collections from various capital funds (e.g., Construction Excise Tax Fund, Sewer Service and Use Charge Capital Improvement Fund, and Public Works Program Support Fund) based on actual activity levels.
- **Transfers** – Revenue from the Transfers category of \$51.1 million ended the year 1.5% above the modified budget level of \$50.3 million. The positive variance resulted primarily from debt-related technical adjustments. These adjustments were necessary as part of the actions to restructure debt in various City funds or to account for the final disposition of bond proceeds.
- **Reimbursement for Services** – Collections of \$17.7 million in the Reimbursements for Services category were 0.7% below the modified budget level of \$17.8 million. The slight negative variance was due to lower than anticipated reimbursements for Deferred Compensation costs.

Summary

In 2007-2008, total revenue received by the General Fund of \$827.7 million was slightly lower than the modified budget level by \$1.3 million or 0.2%. After adjusting for grant and reimbursement related revenues not received in 2007-2008, but rebudgeted to 2008-2009, however, revenues actually ended the year \$2.9 million (0.3%) above the budgeted estimate. This is a very small variance given the diversity of the City's revenues and the overall size of the General Fund. The outcome does, however, represent the net impact of a number of positive and negative variances already described in this section.

The Administration will continue to actively monitor collections for 2008-2009 through the Bi-Monthly Financial Report process, and return with recommendations for any revisions during the Mid-Year Budget Review. Given the current economic conditions, this review will be particularly important to ensure that the City responds quickly to any significant downturn in our revenue collections.